

TARIFF ACTION MEMORANDUM

File No.: TA500-8

Date: March 23, 2021

Date Filed: February 16, 2021

Statutory End Date: April 2, 2021

Name of Utility: Chugach Electric Association, Inc.

Description: Annual Update to the Gas Transfer Price

Synopsis of Filing:

Chugach Electric Association, Inc. submits its update to its Gas Transfer Price for the period beginning April 1, 2021.

Tariff Recommendations:

The Commission should:

1. Suspend TA500-8 into Docket No. U-20-071.
2. Approve the Gas Transfer Price proposed in TA500-8 on an interim and refundable basis.
3. Approve Tariff Sheet No. 98, filed February 16, 2021, by Chugach Electric Association, Inc. with TA500-8, as shown on the attached side-by-side tariff sheet (BA-1). The effective date of the tariff sheet should be April 1, 2021.

Reason(s) for the above-indicated recommendation: See attached memorandum.

Signed: Becki Alvey
Becki Alvey

Title: Utility Tariff Analyst

Commission decision regarding this recommendation:

	Date (if different from 3/23/2021)	<u>I CONCUR</u>	<u>I DO NOT CONCUR</u>	<u>I WILL WRITE A DISSENTING STATEMENT*</u>
Pickett	<u>3/30/2021</u>	<u>RMP</u>		
Kurber	<u>3/30/2021</u>	<u>KKT</u>		
Scott	<u>3/30/2021</u>	<u>AGS</u>		
Sullivan		<u>DS</u>		
Wilson	<u>3/30/21</u>	<u>JWK</u>		

* If this column is initialed, Staff will contact the Commissioner for the statement; otherwise, the dissent will simply be noted at the close of the By Direction letter or order.

STATE OF ALASKA
The Regulatory Commission of Alaska
701 West 8th Ave., Suite 300
Anchorage, Alaska 99501-3469

M E M O R A N D U M

To: Robert M. Pickett, Chairman
Keith Kurber II
Antony Scott
Daniel A. Sullivan
Janis W. Wilson

Date: March 23, 2021

From: Becki Alvey, Utility Tariff Analyst

Subject: TA500-8, Chugach Electric Association, Inc.
Update to the Gas Transfer Price

STATEMENT OF CASE

Chugach Electric Association, Inc. (Chugach) submits its update to its Gas Transfer Price (GTP) for the period beginning April 1, 2021.

RECOMMENDATION

The Commission should:

1. Suspend TA500-8 into Docket No. U-20-071.
2. Approve the GTP proposed in TA500-8 on an interim and refundable basis.
3. Approve Tariff Sheet No. 98, filed February 16, 2021 by Chugach with TA500-8, as shown on the attached side-by-side tariff sheet (BA-1). The effective date of the tariff sheet should be April 1, 2021.

BACKGROUND

Chugach is the largest electric utility in Alaska providing service to approximately 113,000 metered locations, 31,000 in the North District and 82,000 in the South District, and wholesale customer, Seward Electric System.¹

On November 5, 2018, the Commission issued Order No. U-18-102(1), opening an investigation into the BRU management practices of the Municipality of Anchorage d/b/a Municipal Light and Power (ML&P). On April 18, 2019, the Commission issued Order No. U-19-020(1) and Order No. U-19-021(1) to address Chugach Electric Association Inc.'s (Chugach) petition to acquire most of ML&P's assets and ML&P's request for amendment of its certificate, respectively. Docket No. U-18-102 was consolidated with Docket Nos. U-19-020 and U-19-021, on May 8, 2019, with Order No. U-18-102(8)/U-19-020(2)/U-19-021(2). In that order the Commission designated Chugach as a party to Docket No. U-18-102. On May 28, 2020, the Commission issued Order No. U-18-102(44)/U-19-

¹ See tariff advice letter for TA500-8, at page 1.

020(39)/U-19-021(39), conditionally approving the transaction and requiring a number of filings.

With TA494-8, Chugach proposed a methodology to establish a unified GTP. On October 9, 2020, the Commission issued Order No. U-19-085(19)/U-19-091(18)/U-20-071(1), suspending TA494-8, consolidating the dockets, scheduling a prehearing conference, appointing an administrative law judge, and assigning the Commission panel. On November 17, 2020, Chugach filed TA497-8, updating its GTP based on the methodology proposed in TA494-8. On December 29, 2020, the Commission issued Order No. U-19-085(22)/U-19-091(21)/U-19-071(4) suspending TA497-8, approving TA494-8 on an interim basis, and approving the GTP proposed in TA497-8 on an interim and refundable basis.

Chugach now submits TA500-8, updating its GTP for the period beginning April 1, 2021. A public notice was issued for TA497-8 on February 18, 2021, with comments requested by March 22, 2021. No comments have been received.

ANALYSIS

Asset Retirement Obligation and ARO Surcharge

In Docket No. U-14-009, the Commission approved an ARO surcharge methodology for recovery, through the GTP, of estimated costs of retiring the BRU gas field at the time of field abandonment for ML&P. This surcharge is collected from ratepayers, through the GTP, and is deposited into a sinking fund that will be used at a future time to pay the cost of retiring the field. With TA500-8, Chugach reported the balance of the fund as of December 31, 2020 is \$19,122,509.91, which includes the surcharge revenue and earned interest for both the previously ML&P share and the Chugach share.²

The ARO surcharge, established in Docket No. U-14-009,³ has been calculated annually with both known⁴ and projected amounts⁵ in the COPA effective in the third quarter every year. With Order No. U-16-060(12)/U-16-073(11), the Commission required ML&P to update the ARO surcharge twice a year.⁶ With TA494-8, Chugach proposed to adopt the ARO surcharge methodology used by ML&P for Chugach's combined 66.67% working interest in the BRU. The ARO surcharge is calculated using the following formula:

$$\text{ARO Surcharge} = \frac{(\text{Remaining ARO Sinking Fund Retirement} - \text{Projected Interest Revenue in Future Years})}{\text{Projected Future BRU Production}}$$

With TA500-8, Chugach proposes of ARO surcharge of \$0.10572, which has been rounded up to \$0.11 for inclusion in the GTP because Chugach rounds to two decimal places for its GTP calculation. A table showing the proposed calculation is below.

² See TA500-8, at Exhibit 4.

³ See Order No. U-14-009(2), at pages 5 and 11.

⁴ Current ARO Sinking Fund Balance. See TA500-8, at Exhibit 3.

⁵ Projected Interest Earnings and Future Gas Production. See TA500-8, at Exhibit 3.

⁶ See Order No. U-16-060(12)/U-16-073(11), *Order Granting in Part Request for Approval of Ratemaking and Accounting Treatment and Requiring Filings*, issued October 24, 2017, at pages 19 and 21.

		Current ARO	Current ARO	Difference
A	ARO Sinking Fund Balance at Beginning of Period	\$37,511,288	\$36,951,910	(\$559,378)
B	Projected Interest	(\$26,140,140)	(\$25,033,566)	\$1,106,574
C	Total to be Collected (A + B)	\$11,371,148	\$11,918,344	\$547,196
D	Total Future Production (MCF)	117,823,895	112,734,531	(5,089,364)
E	ARO Surcharge (C / D)	\$0.09651	\$0.10572	\$0.00921

The ARO surcharge is added to the GTP to establish the Transfer Price of Chugach Natural Gas Produced from the Beluga River Unit on Tariff Sheet No. 98. Staff reviewed the calculation provided with TA501-8 and believes that it is consistent with the methodology proposed in TA494-8. Staff believes that the ARO surcharge was accurately calculated and incorporated into the GTP.

GTP

With TA500-8, Chugach proposes a GTP of \$3.39/Mcf. This an increase from the current GTP of \$2.73/Mcf. A comparison of the current and proposed GTP can be found in the table below.

		TA497-8 ⁷	TA500-8 ⁸
A	Total Adjusted Revenue Requirement	\$13,382,254	\$17,437,591
B	MCFs	5,089,364	5,323,833
C	GTP (A/B)	\$2.63	\$3.28
D	ARO Surcharge	\$0.10	\$0.11
E	Transfer Price of BRU Gas (C+D)	\$2.73/Mcf	\$3.39/Mcf

This increase is a result on an increase in production costs. Staff verified that the GTP was calculated using the methodology proposed in TA494-8 and that the tariff sheet is correct. Therefore, Staff recommends the Commission approve Tariff Sheet No. 98.

Underlift Settlement and DRLGS

In Order No. U-07-045(2), the Commission granted ML&P's proposal to exclude third party gas sales revenue from the gas fund revenue requirement calculation as a method to stabilize rates and avoid rate shock and inappropriate price signals. Proceeds from third party gas sales, net of royalties, were required to be held as DRLGS.⁹

The Commission required ML&P to submit quarterly reports on the activity of the DRLGS account and deferred future natural gas purchases as part of its quarterly COPA filings until the balance of the liability reaches zero. The account also tracks the interest,

⁷ See TA497-8, at Exhibit 2.

⁸ See TA500-8, at Exhibit 1, page 2.

⁹ Order U-07-045(2), *Order Granting Petition and Closing Docket*, dated May 15, 2007.

investment earnings, and royalties associated with the gas sales and capital improvement projects. Capital improvement projects were previously accounted for in accounts established for Underlift Settlements. The Underlift accounts established in Docket Nos. U-04-063 and U-05-097 have been depleted and capital improvements are now tracked through the DRLGS account.¹⁰ As part of the acquisition of most of the assets of ML&P, Chugach received the DRLGS account.

The following table shows revenues and accumulated balances from BRU gas sales, capital improvements, and gas purchase expenditures funded by those balances, and interest earned on the net balances as of December 31, 2020.

DEFERRED REGULATORY LIABILITY FROM GAS SALES ACCOUNT U-07-045(2)							
	Revenues from Gas Sales	Interest and Investment Earnings	Royalties	Production Taxes	Capital Improvements Capitalized	Fuel Purchases	LIABILITY BALANCE
Balance as of 6/30/2020	197,429,989	11,910,513	(15,511,745)	(17,800,872)	(175,640,315)	(387,750)	-
Gas Sales	-						
Royalties							
Private Owner Royalty Payment	7,163						
Interest		6					
Expenditures – CIP					-		
Production Taxes							
Balance as of 9/30/2020	197,437,152	11,910,519	(15,511,745)	(17,800,872)	(175,640,315)	(387,750)	7,169

In Order No. U-06-089(2), the Commission established the Long-Term Future Gas Purchases Account (FGP) and restricted its use to offsetting the costs of future purchases of gas.¹¹ In Order No. U-16-012(14), the Commission approved the use of the current balance of the FGP for the BRU acquisition.¹² The FGP was an account transferred to Chugach as part of the acquisition. With TA500-8, Chugach submitted a report on the activity in the FGP; the balance as of September 30, 2020, is \$7,806,831.¹³

Suspension into U-20-071

¹⁰ See tariff advice letter for TA298-121, filed February 13, 2009, at pages 2 and 3.

¹¹ See Order No. U-06-089(2), *Order Affirming Bench Ruling Approving Plan for Use of 2005 Underlift Settlement and Closing Docket*, issued October 23, 2006.

¹² See Order No. U-16-012(14), *Order Affirming Bench Ruling Granting Joint Request, Affirming Bench Ruling Granting Petition for Confidential Treatment, Affirming Bench Ruling Accepting Stipulation, Affirming Bench Ruling Granting Federal Executive Agencies' Request to Withdraw Participation as a Party, and Closing Docket*, issued April 21, 2016, at page 22.

¹³ See TA500-8, at Exhibit 6.

With TA474-8, Chugach filed an update to its GTP based on the updated Reserves Study and ARO study. On October 14, 2019, the Commission issued Order No. U-19-085(2)/U-19-091(1) suspending TA474-8 for further investigation, setting an interim and refundable GTP, and consolidating Docket No. U-19-091 with Docket No. U-18-085.¹⁴ With TA494-8, Chugach proposed a methodology for a unified GTP for the post-acquisition utility. On October 9, 2020, the Commission issued Order No. U-19-085(19)/U-19-091(18)/U-20-071(1), suspending TA494-8, consolidating Docket No. U-20-071 with Docket Nos. U-19-085 and U-19-091, scheduling a prehearing conference, appointing an administrative law judge, and assigning the Commission panel.

Staff notes that Chugach proposes to update its currently interim and refundable GTP in the instant filing using a methodology that it currently suspended. Docket Nos. U-19-091 and U-20-071 are currently pending before the Commission and the Commission has not approved Chugach's updated methodology on a permanent basis. Therefore, Staff recommends that the Commission suspend TA500-8 into Docket No. U-20-071.

TA501-8 and TA381-121

On February 16, 2021, Chugach filed its combined COPA for the North District (TA381-121) and the South District (TA501-8). With those filing, Chugach proposes to calculate its COPA for the period beginning April 1, 2021 with the GTP proposed in the instant filing.¹⁵

CONCLUSION

With TA500-8 Chugach requests approval of an update to its GTP for the period beginning April 1, 2021. Staff has reviewed TA500-8 and the supporting documentation and verified that the GTP has been calculated according to Chugach's proposed unified GTP methodology and the tariff sheet is correct. Staff recommends the Commission:

1. Suspend TA500-8 into Docket No. U-20-071.
2. Approve the GTP proposed in TA500-8 on an interim and refundable basis.
3. Approve Tariff Sheet No. 98, filed February 16, 2021 by Chugach with TA500-8, effective April 1, 2021.

Signature: Keith Kurber II
Keith Kurber II (Mar 30, 2021 09:10 AKDT)

Email: keith.kurber@alaska.gov

Signature: Antony Scott
Antony Scott (Mar 30, 2021 09:37 AKDT)

Email: antony.scott@alaska.gov

Signature: Daniel Sullivan
Daniel Sullivan (Mar 30, 2021 09:41 AKDT)


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Signature: Janis W. Wilson
Janis W. Wilson (Mar 30, 2021 10:26 AKDT)

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¹⁴ Staff notes that Docket No. U-19-085 is the investigation into ML&P's updated GTP based on an updated Reserves Study and ARO Study.

¹⁵ See tariff advice letter for TA500-8 at page 1.


RCA No. <u>8</u>	<u>14th Revision</u>	Sheet No. <u>98</u>	RECEIVED NOV 17 2020 <small>STATE OF ALASKA REGULATORY COMMISSION OF ALASKA</small>
		Sheet No. <u>98</u>	
Canceling <u>13th Revision</u>			
Chugach Electric Association, Inc.			

**TRANSFER PRICE OF CHUGACH ELECTRIC ASSOCIATION ELECTRIC, INC.
NATURAL GAS PRODUCED FROM THE BELUGA RIVER UNIT**

<u>Effective Date</u>	<u>Price (\$/Mcf)</u>	
April 22, 2016	\$4.93	
July 1, 2017	\$4.43	
October 1, 2017	\$4.08	
July 1, 2018	\$4.76	
July 1, 2019	\$3.75	
September 1, 2019	\$2.85	
November 1, 2019	\$3.05	
July 27, 2020	\$5.10	
Post Acquisition:		
January 1, 2021	\$2.73	N N

Pursuant to U-19-085(22)/U-19-091(21)/U-20-071(4)

Tariff Advice No. 497-8	Issued by:	Effective: January 1, 2021
	Chugach Electric Association, Inc.	
	P.O. Box 196300 Anchorage, Alaska 99519-6300	

RCA No. <u>8</u>	<u>15th Revision</u>	Sheet No. <u>98</u>		TARIFF SECTION RECEIVED FEB 16 2021 RCA
Canceling		Sheet No. <u>98</u>		
<u>14th Revision</u>				
Chugach Electric Association, Inc.				

**TRANSFER PRICE OF CHUGACH ELECTRIC ASSOCIATION ELECTRIC, INC.
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October 1, 2017	\$4.08	
July 1, 2018	\$4.76	
July 1, 2019	\$3.75	
September 1, 2019	\$2.85	
November 1, 2019	\$3.05	
July 27, 2020	\$5.10	
Post Acquisition:		
January 1, 2021	\$2.73	
April 1, 2021	\$3.39	I

Tariff Advice No. 500-8	Issued by:	Effective: April 1, 2021
	Chugach Electric Association, Inc.	
	P.O. Box 196300 Anchorage, Alaska 99519-6300	